

**STATE OF DELAWARE**  
**OFFICE OF AUDITOR OF ACCOUNTS**

**DELAWARE HEALTH CARE COMMISSION**

**DELAWARE HEALTH INFORMATION NETWORK**

**SPECIAL INVESTIGATION**

**FIELDWORK END DATE: MARCH 19, 2010**

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**State of Delaware**  
**Office of Auditor of Accounts**  
**R. Thomas Wagner, Jr. – CFE, CGFM, CICA**  
**At a Glance**

*Working Hard to Protect YOUR Tax Dollars*

**Why We Did This Review**

The Office of Auditor of Accounts (AOA) received allegations that the governmental oversight of the Delaware Health Information Network (DHIN) was not adequate and the DHIN spending was not consistent with Delaware Law.

**Background**

The Delaware Health Care Commission (the Commission) is the oversight agency of the DHIN. The DHIN was created in July 1997 as a public instrumentality of the State to advance the creation of a statewide health information and electronic data interchange network for public and private use and functions under the direction and control of the Commission. DHIN's mission is to facilitate the design and implementation of an integrated statewide health data system to support the information needs of consumers, health plans, policymakers, providers, purchasers, and research to improve the quality and efficiency of health care services in Delaware.

**For further information on this release, please contact:**

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**DELAWARE HEALTH INFORMATION NETWORK (DHIN)**

**What We Found**

This report notes a lack of complete financial reporting to decision-makers and stakeholders. Limited financial information was provided to the Executive Committee and Board, and when it was provided, it generally lacked revenue budgets and actual results and did not agree with financial information recorded on the State's accounting system. The Office of Auditor of Accounts (AOA) is most concerned that private funding revenue reports were not provided to the Executive Committee and Board. Funding from the private sector is critical for the success of this program. Additionally, the DHIN did not comply with the Delaware Bond Bill reporting requirements in Fiscal Years (FY) ending June 30, 2008 and 2009.

State fiscal oversight was found to be lacking. From the establishment of the DHIN, project management was outsourced to a third-party project management firm. Fiscal oversight of the project was to be performed between the Commission and the Office of Management and Budget (OMB). For an unknown reason, project accounting and reconciliation controls were not fully implemented. Further, State fiscal review and budget analysis during the review periods was lacking. The concern is that no State financial professional is specifically assigned to the DHIN to look out for the best interest of Delaware taxpayers.

Also, the sustainability of the DHIN project is a concern. Currently, AOA estimates that the DHIN project needs approximately \$3.4 million per year in revenue to maintain the project, as it is currently designed to function. Private donations are estimated at \$1.8 million annually, leaving the taxpayer, through a mix of federal and State funding, to pay for the remaining operational and implementation costs. At the current spending and funding rates, utilizing the current business-operating model, the DHIN project will run out of funding by the middle of Fiscal Year ending June 30, 2012.

**What We Recommend**

The DHIN should immediately implement more comprehensive standard periodic financial reporting for stakeholders and decision-makers. These financial reports should agree to the State's Delaware Financial Management System (DFMS). The DHIN should comply with Delaware Bond Bill reporting requirements.

The State should take on a greater fiscal oversight role by ensuring that specific financial professionals are assigned to ensure the accuracy and completeness of published financial information and proper accounting treatment of revenue and expenditures.

The DHIN should develop a sustainability plan and corresponding business plan that will gradually reduce reliance on public funding.

**Please read the complete report for a full list of findings/recommendations and to review the DHIN's response to our findings.**

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# AUDIT AUTHORITY

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Title 29, Del. C., c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusiness-like practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

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# ALLEGATIONS AND BACKGROUND

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## **ALLEGATIONS**

The Office of Auditor of Accounts (AOA) received the following allegations:

1. Governmental oversight of the DHIN spending has not been adequate.
2. The DHIN project spending is not consistent with Delaware Law.

## **BACKGROUND**

### **Delaware Health Care Commission**

The Commission was created in 1990 in an effort to offer affordable health care to Delawareans. The Commission is composed of four government officials and six private citizens to embody both public and private efforts. The Commission utilizes a committee system as a means of reaching out to and involving the community that is impacted. The Delaware Institute of Medical Education and Research (DIMER) and the DHIN both serve as a catalyst to help achieve the goals of the Delaware Health Care Commission.

### **Delaware Health Information Network**

The DHIN was created in July 1997 as a public instrumentality of the State to advance the creation of a statewide health information and electronic data interchange network for public and private use and functions under the direction and control of the Commission. The mission of DHIN is as follows: "To facilitate the design and implementation of an integrated statewide health data system to support the information needs of consumers, health plans, policymakers, providers, purchasers, and research to improve the quality and efficiency of health care services in Delaware."

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# OBJECTIVES, SCOPE, & METHODOLOGY

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## **OBJECTIVES**

The objectives of this investigation include:

- Determine the adequacy of project and budget reporting of the DHIN to stakeholders.
- Review the vendor selection process for compliance with 29 Del. C., c. 69, State Procurement.
- Determine whether vendor payments are in accordance with the contract.
- Review project funding to determine compliance with Bond Bill budgetary requirements.
- Evaluate recording of expenditures in the appropriate fund account via the State's accounting system, DFMS.

## **SCOPE**

The scope of our investigation was for the Fiscal Years ended June 30, 2007 through 2009 (FY07 through FY09) and was focused on the implementation of the DHIN.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

## **METHODOLOGY**

The investigation approach included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.
- Data extraction and analysis.
- Examination of supporting records and source documentation.
- Observation.

The conclusion of the allegation(s) is defined as follows:

Substantiated:           The allegation has been verified by competent evidence.

Partially  
Substantiated:           A portion of the allegation has been verified by competent evidence;  
however, competent evidence to verify the entire allegation could not be  
provided by the agency or obtained by AOA.

Unsubstantiated:       Competent evidence was found to dispute the allegation.

Unable to conclude:     Competent evidence to verify the allegation could not be provided by the  
agency or obtained by AOA.

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# CONCLUSION

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## **Allegations**

The Office of Auditor of Accounts (AOA) received the following allegations:

1. Governmental oversight of the DHIN spending has not been adequate.
2. The DHIN project spending is not consistent with Delaware Law.

## **Results of Testing**

The DHIN is a subset of the Commission. The Commission was created in an effort to promote affordable health care to the public. The Commission utilizes a committee system that involves the community and state agencies to oversee the DHIN. A committee of State employees and private citizens currently manages the DHIN. During our investigation, the DHIN was housed under the executive branch of government. As of July 1, 2009, the DHIN is a function of the Delaware Department of Health and Social Services (DHSS).

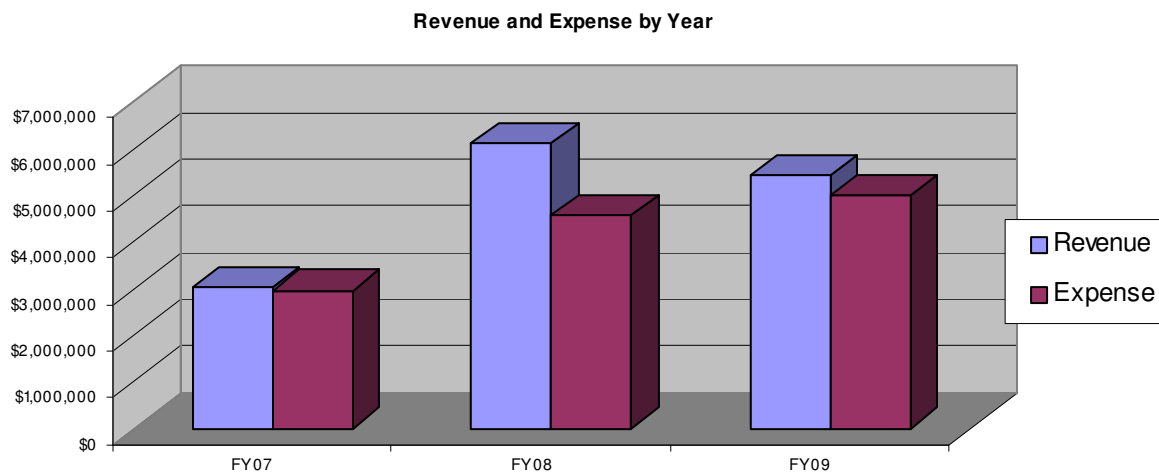
In March 2004, the DHIN contracted with a project management firm to provide ongoing project management services in an effort to create a business structure that enables operational, business, and technical support of the DHIN.

In September 2006, based on recommendations from the project management firm, the DHIN signed a \$24,524,000, six-year contract that includes an optional four-year extension with the software development firm for software support to implement the information network. The contract is amended annually to support the changing needs of the health care community. The project has not been implemented as timely as initially planned. Major Delaware health care providers can currently access the system.

In 2007, the DHIN Management obtained a sole source document to award a multi-year contract to this project management firm to provide ongoing services. The project has not progressed on the initial timeline. The implementation of interfaces with certain hospitals and health care providers was aggressive in the initial projections. Some items, such as the interface with the Veterans' Administration and electronic prescriptions have been postponed. Each year the project management firm renegotiates the deliverables for the upcoming year based on the changing commitments of the DHIN business partners and the current business and technology climate.

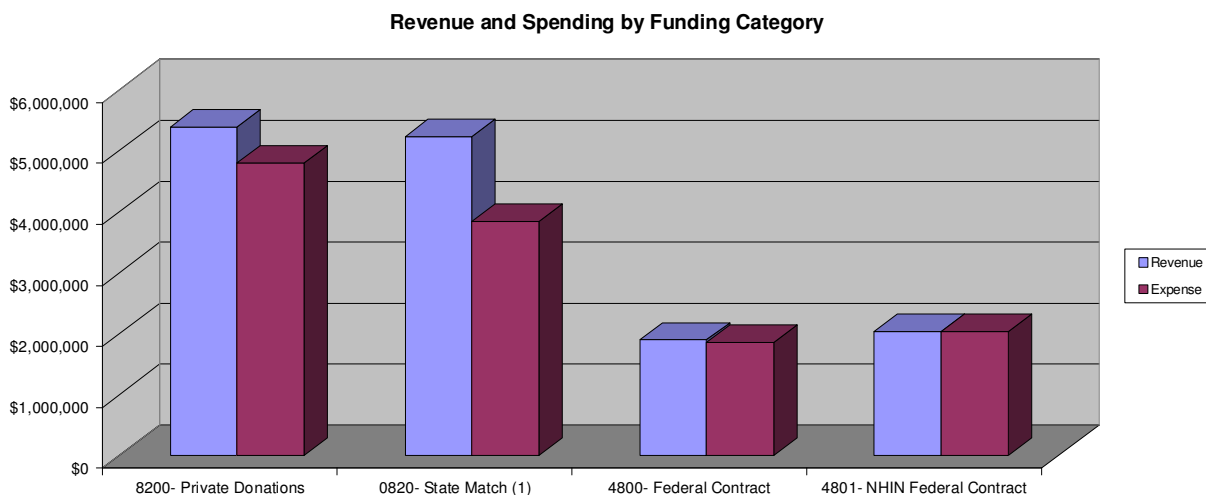
## CONCLUSION (CONT.)

For the period of FY07 through FY09, the DHIN had revenues from State, Federal, and private sources of \$15,054,222 and expenditures of \$13,002,182 as depicted in the following graph:



The largest single expense was for the software development firm in the amount of \$9,350,519.

The following graph depicts revenue and spending by Funding Category for the period FY07 through FY09.



The following information represents Bond Bill Funding by fiscal year and private funding collected:

	FY07	FY08	FY09
Delaware Bond Bill Funding	\$ 2,000,000	\$ 3,000,000	\$ 1,500,000
Private Funding	\$ 1,432,253	\$ 1,829,007	\$ 2,129,100



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## CONCLUSION (CONT.)

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Please note that the DHIN has up to three years from the year of award to use State funding before this funding reverts back to the State provided they obtain the appropriate private funding match (i.e., unused FY07 funds would lapse at beginning of FY11).

This report notes inadequate and potentially inaccurate fiscal reporting to the DHIN Board of Directors and the DHIN Executive Committee resulting in inadequate governmental oversight. For example, the fiscal reports generally lacked concise revenue budgets and actual results. In addition, detailed information regarding the receipts and commitments of private funding revenue was lacking and is necessary to ensure ongoing compliance with the Bond Bill.

From the establishment of the DHIN, the project management was outsourced to a third-party project management firm. The Commission and the OMB were responsible for fiscal oversight of the project. For an unknown reason, project accounting and reconciliation controls were not fully implemented. Further, State fiscal review and budget analysis during the review periods was lacking. The concern is that no State financial professional is specifically assigned to the DHIN to look out for the best interest of Delaware taxpayers.

Based on current commitments, the DHIN project will run out of funding by the middle of FY12 if additional future funding is not identified. Currently, AOA estimates that the DHIN needs approximately \$3.4 million per year in revenue to maintain the existing DHIN systems. Although the DHIN has been able to implement certain large-scale health care providers (Christiana Care, Bay Health, etc.), many other health care providers and physicians are not yet using this information interchange. Private donations are estimated at \$1.8 million annually, leaving the taxpayer through a mix of federal and state funding to pay for the remaining operational and implementation costs. Presuming that the current business model remains in place, Delaware taxpayers will continue to financially support the DHIN or the project could suffer significant delays while management works to obtain alternative funding sources.

### Conclusion:

1. Governmental oversight of the DHIN spending has not been adequate. *Substantiated*
2. The DHIN project spending is not consistent with Delaware Law: *Unsubstantiated*

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# FINDINGS AND RECOMMENDATIONS

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## **Finding #1 –Inadequate and Potentially Inaccurate Financial Reporting to the DHIN Board of Directors and the DHIN Executive Committee Resulting in Inadequate Governmental Oversight**

### ***Criteria***

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Chapter 4, "Control activities are policies and procedures, which are the actions of people to implement the policies, to help ensure that management directives identified as necessary to address risks are carried out. Control activities can be divided into three categories, based on the nature of the entity's objectives to which they relate: operations, financial reporting, or compliance . . ." COSO further states that control activities include ". . . a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance . . ."

### ***Condition***

AOA requested financial reporting of the DHIN to the Executive Committee or the Board of Directors. The Commission Management provided AOA with minutes from Executive Committee or Board of Director meetings. Based on the reports reviewed, information provided to the Executive Committee and Board of Directors did not provide a consistent and uniform depiction of financial condition of the project. Examples of inconsistent financial reporting include:

- Financial information delivered to the Executive Committee and Board of Directors for FY07, FY08, and FY09 often did not agree to financial information reported via DFMS. Management believes that differences are the result of timing. However, there was no process to reconcile financial information to DFMS that was given to the Executive Committee and the Board of Directors. Furthermore, the DHIN and the OMB personnel have been unable to reconcile this information. As a result, AOA could not determine the accuracy of the financial information provided to the Executive Committee and Board of Directors.
- Budget information delivered to the Executive Committee and Board of Directors for FY08 and FY09 was incomplete.
- Actual financial spending was not presented to the Executive Committee or the Board in FY08.
- The Executive Committee or Board of Directors did not receive complete revenue reports for any of the reports reviewed for FY07, FY08, and FY09.
- The annual report to the Executive Committee and Board of Directors did not include information about private contribution commitments that had not been paid within a previously agreed-upon timeframe for FY07, FY08, and FY09.

In presenting expenditures to the DHIN Board of Directors and the DHIN Executive Committee, Management did not reconcile financial information received from the project management firm to the State's accounting system. For example, FY07 expenditures reported to the DHIN Executive Committee indicates approximately \$4.1 million in actual spending. DFMS data disclosed approximately \$2.9 million in actual spending. It is possible that some of the differences occurred due to different accounting treatment between the project management firm and DFMS. Without timely reconciliation, there are no controls to ensure that funds are not misappropriated. Management could not provide AOA with reconciliations for any of the fiscal years reviewed.

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# FINDINGS AND RECOMMENDATIONS (CONT.)

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Furthermore, AOA reviewed the bill payment process for the project management firm and found that documentation to support the accuracy of the invoices was not consistently maintained during the period. There was no process to reconcile the invoice payments to DFMS to ensure that invoices were properly recorded.

## ***Cause***

Management did not require the DHIN staff to reconcile financial information reported to stakeholders to DFMS to ensure accuracy and completeness of the reported financial information. Management did not realize the need to reconcile this financial information.

## ***Effect***

Financial information delivered to the DHIN Executive Committee and other stakeholders cannot be reconciled to DFMS. The inability to reconcile this information presents the risk that the DHIN stakeholders may have received inaccurate financial information. Thus, decisions may have been made based upon incorrect information.

## ***Recommendation***

Management should immediately implement control procedures to ensure that all DHIN financial information reported to stakeholders is reconciled to both DFMS and the project management system.

Management should provide complete and timely reporting of the DHIN financials. Reporting should include budget to actual reports of revenue and expenditures and include progress reports that detail projected timelines.

## ***Auditee Response***

We agree with this recommendation and would like to note that prior to the audit being undertaken, DHIN recognized the need for more complete and consistent financial reporting. The steps outlined below were taken in fall 2008. The audit review period ended June 30, 2009; however, the initial steps taken by the DHIN Board under its own accord were not recognized as part of the audit findings. They were:

- The Management Firm's contract was amended to hire a Finance Manager dedicated to DHIN.
- The Finance Manager was hired in February 2009. His first priority was to develop financial statements. These statements were provided to the DHIN Board and Executive Committee in June 2009 and continue to be provided on a quarterly basis.

A Finance and Sustainability Workshop was created by the Board of Directors in June 2009 to provide guidance and oversight to the Finance Manager and the financial reporting of DHIN. The Workgroup provided reports to the Board and Executive Committee at each subsequent meeting. Financial policies and procedures were developed. The Board approved elevating the Finance and Sustainability Workgroup to the official Finance Committee status in April 2010.

Prospectively, the Office of the Secretary will convene a work group that will design a system addressing the concerns outlined in this finding. The work group will be comprised of members from the Department of Health and Social Services (DHSS) Budget & Program Analysis/Revenue Management

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# FINDINGS AND RECOMMENDATIONS (CONT.)

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Services, Controller's Office/Fiscal Management, and State staff of the Delaware Health Care Commission (DHCC). The objectives of this work group will be to develop and implement a work plan (with attendant timelines) for designing a system of management and procedures that:

- Inventories the range of reports needing to be produced on an annual basis including their due dates;
- Identifies the sources of information each report should be based on in order to ensure that they are based upon documented, verifiable financial information from official sources such as DFMS;
- Require that backup documentation be maintained for all reports so that the report information can be traced to source documentation.
- Require that all financial reports be formally reviewed by DHSS prior to release;
- Establishes a formal process of regularly reconciling all financial transactions and information to DFMS and other records;
- Require quarterly meetings between the Cabinet Secretary (or designee), appropriate members of the Division of Management Services and DHCC staff to ensure that the work plan is being carried out.

## **Finding #2 – Non-Compliance with Bond Bill Reporting Requirements**

### ***Criteria***

According to the FY08 and FY09 Delaware Bond Bills, "Prior to the disbursement of funds, the Commission, working in conjunction with the DHIN, shall provide the following:

- a) A firm written commitment, on a dollar for dollar draw basis, that demonstrates a matching contribution from non-state sources (not including federal funds) to the Director of the Office of Management and Budget and the Controller General. The matching commitment for accessing state funds in the aggregate shall be a minimum of \$3,000,000 for FY08 and \$1,500,000 for FY09 from non-state sources (not including federal funds);
- b) A budget that outlines the expenditure for the \$3,000,000 for FY08 and \$1,500,000 for FY09 state appropriation including a breakdown of categories (personnel/contractual services/supplies, etc);
- c) A total project budget over multiple years that includes funding allocations detailing federal, private and state requested amounts; and
- d) A plan for staffing this initiative through contractual dollars."

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# FINDINGS AND RECOMMENDATIONS (CONT.)

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## ***Condition***

Management did not comply with the bond bill reporting requirements for FY08 and FY09. Management provided PowerPoint documents to AOA that represented updates to the Controller General, OMB, and the Bond Bill Committee. The FY08 and FY09 reports did not include the required information including a matched commitment of private funds, a budget of expenditures, or a staffing plan.

## ***Cause***

Management believed their reporting to the Controller General, the OMB, and the Bond Bill Committee was adequate.

## ***Effect***

The DHIN did not comply with Delaware Bond Bill reporting requirements, resulting in inadequate information being provided to the Board.

## ***Recommendation***

Compliance with reporting requirements is important to ensure all stakeholders are informed of the DHIN program. Match funding revenue, budget status, and staffing plans are critical information that is necessary for stakeholders. Management should comply with state law and enforce the reporting requirements of the Delaware Bond Bill.

## ***Auditee Response***

The needs of this recommendation are acknowledged, and DHIN will modify the format used when it reports to the Bond Bill Committee as stipulated. The work plan outlined in the response of Finding #1 will include inventorying the cited reporting/planning requirements as well as designing a system to regularly carry them out.

## **Finding#3 – Potentially Insufficient DHIN Project Funding**

### ***Criteria***

The DHIN project was expected to develop and deliver a health care information system that provided fee-for-service. Therefore, State funding was set forth over multiple years to provide adequate time for the DHIN to develop and charge fee-for-service.

### ***Condition***

In order to ensure financial sustainability of operations, the DHIN will need to identify milestones regarding completion of the healthcare information system that will yield sustainable revenues. At the onset of the DHIN program, the intent was for the State to provide startup funding that would allow the DHIN to develop a fee-for-service revenue stream. The DHIN base line budget or fixed costs moving forward is approximately \$3.4 million per year, while current revenue received from the health care community private sources is approximately \$1.8 million a year. Our projection does not include variable costs, which are expected to be \$2.4 million in FY10. Currently, the DHIN has funds in reserve; however, AOA estimates that the DHIN could run a deficit by the middle of FY12. The proposed FY11 Governor's Recommended Budget does not currently provide additional funding for the DHIN.

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# FINDINGS AND RECOMMENDATIONS (CONT.)

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## ***Cause***

Management recently drafted a sustainability plan and expects to submit these plans to the Board for approval during the spring of 2010.

## ***Effect***

Ongoing operations may be adversely affected without swift action to obtain sufficient future revenues.

## ***Recommendation***

Management should implement a sustainability plan and corresponding business plan that will ensure financial viability into the future.

## ***Auditee Response***

Prior to the AOA review, DHIN took a proactive approach to sustainability and in fact, began developing a sustainability model in FY 2009, which included a phased approach. As such, DHSS agrees with this recommendation. To further support this effort, the Office of the Secretary will convene a work group comprised of members from the DHSS Budget & Program Analysis/Revenue Management Services Unit and State staff of DHCC to develop and implement a work plan for producing a DHIN sustainability/business plan. The goal will be to identify strategies to sustain and operate the DHIN into the future.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

The Honorable Jack Markell, Governor, State of Delaware  
The Honorable Russell T. Larson, Controller General, Office of the Controller General  
The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General  
The Honorable John A. Kowalko, Jr., Chair, Joint Sunset Committee  
Ms. Debbie Puzzo, Executive Director, Joint Sunset Committee

Officials of Audited Entity

The Honorable Rita Landgraf, Secretary, Department of Health and Social Services  
Mr. John Carney, Chairman, Delaware Health Care Commission  
Mr. Robert White, Chairman, Delaware Health Information Network  
Ms. Paula Roy, Director, Delaware Health Care Commission, Department of Health and Social Services  
Ms. Valencia L. Beaty, Director, Division of Management Services, Department of Health and Social Services